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Azerbaijan Economy in the First Ten Months of 2012

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Dramatic fall in oil industry continues to hamper the country's growth in the first ten months of 2012. Although tangible increasing in non-oil GDP, economic growth in Azerbaijan is far away from the forecasted figure. It was the main reason that Government of Azerbaijan (GoA) has adjusted its previous official forecast of 5.7 % GDP growth in 2012 to 2.5 % right Hence, it seems very hard to achieve economic growth forecast for 2012. It shows also that oil production has also had a profound effect on Azerbaijan's domestic sector. One way to characterize its impact is by looking at the rents produced by oil - that is, the returns in excess of production costs - in the Azerbaijan economy.

Volume of industrial production was AZN 28.5 billion (\$ 36,5 billion) in the first 10 months of 2012 as State Statistic Committee reported. Industrial production decreased by 3,9 % in reporting period compare with the same period of 2011.

The committee reported that 6.8% increasing was observed in non-oil sector and 5.9% decreasing was registered in oil sector.

44.2 billion manat (\$ 56,7 billion) GDP produced in the first 10 months of 2012. GDP Growth was only 1.0 % compared to the same period in previous year. GDP per capita was 4823.7 manat (\$ 6138.6) without PPP. GDP per capita with PPP was \$ 10,5 thousand.

Meanwhile, ADB adjusted GDP Growth Rate for Azerbaijan from 4,1 % to 3,0 % according to updated Asian Development Outlook. In the first half of 2012, GDP grew by 1.5% on an annual basis, up from 0.9% in the same period of 2011 but still anemic, primarily reflecting inefficient oil well operation in Azerbaijan. The continued contraction of oil production has dampened expectations for growth, despite government commitment to continue its ambitious social and infrastructure programs.

Main Economic Figures for the Ten Months of 2012 in Azerbaijan

Main Economic Figures	Government Report	CESD Report
GDP Growth	1,0 %	0,5 %
Non-oil GDP Growth	6,8 %	4,7 %
Oil GDP Growth	- 5,9 %	- 8,4 %
Inflation Rate	0,7 %	4,5 %
Industrial Production	- 3,9 %	- 6,0 %
Unemployment Rate	5.5%,	18,0 %
Currency Reserve	\$ 50 billion	N/A
Monthly Salary	\$ 510	\$ 690
Revenues of citizens Increase	% 12,0	% 8,7
Poverty Line	7,6 %	18,5 %

Source; State Statistic Committee of Azerbaijan Republic and CESD, October, 2012

Note; CESD used different methods to calculate macro-economic figures including GDP growth while an aggregation method and a weighting variable are chosen. Reasons how choices of the data source, the aggregation method and the weighting variable create are based on CESD estimation. CESD also used oil production forecast and non-oil import and export, the volume of household and public consumption, capital formation and private and public investment data, as well as the impact of changing inflation on output to forecast GDP. The Center organized focus group discussions including meetings with representatives of different state agencies where estimations of macroeconomic data are included among the subject issues.

Oil GDP Decreased by 5,9 %

State Statistic Committee reported that oil GDP decreased by 5.9 % meanwhile GDP increased by 6,8 % in non-oil sector. According to the state reports 44.2 billion manat (\$ 56,7 billion) GDP produced in the first 10 months of 2012. GDP Growth was only 1.0 % compared to the same period in previous year.

According to the State Committee, 66.7 % of GDP was share of production areas of the economy, as well as, 50.9 % industry, 9.9% construction, 5.9 % agriculture, forestry and fishing and 27.0 % of it was created in the service areas. Net taxes for product and import formed 6.3% of GDP. Volume of value-added created in the non-oil fields of economy increased by 10.4% compared to the same period of previous year and its special weight in the GDP was reached to 50.8%.

In this period value-added in real terms in the field of construction increased by 27.3 %, in the field of accommodation of tourists and catering services – 16.2%, services on information and communication –17.2%, trade and service fields on maintenance of transport means – 9.4%, agriculture, forestry and fishing – 5.9 % and 2.0% in transport and warehouse.

CESD experts mentioned decline in oil production is mainly connected with potential end of oil boom in Azerbaijan: Oil production was peaked in 2010. Starting 2011 oil production in Azerbaijan will dramatically decrease. 51 million tonnes crude oil produced in 2010 and oil production for 2011 was 45,6 million tonnes. Azerbaijani oil production will be kept around 42,0 million tonnes in upcoming 2 years based on Production Sharing Agreement (PSA). Meanwhile, the latest predictions confirm that oil production will be decreased to about 33 million ton in 2015. Even with current prices of crude oil in the world market, SOFAZ's assets will be totally spent within the budget lines if current unbelievable transfers' level kept. Keeping such fantastic transfers can result in negative consequences because of theatrical cutting of budget expenditure lines due to potential lack of financial resources.

GDP increased by 1,0 %

According to the state reports 44.2 billion manat (\$ 56,7 billion) GDP produced in the first 10 months of 2012. GDP Growth was only 1.0 % compared to the same period in previous year. Considering GDP Growth rate in the first ten months of 2012, it seems hard to achieve macro-economic forecasts for this year.

Industrial Production Decreased by 3,9 %

Volume of industrial production was AZN 28.5 billion (\$ 36,5 billion) in the first 10 months of 2012 as State Statistic Committee reported. Industrial production decreased by 3,9 % in reporting period compare with the same period of 2011. According to State Committee, 76.1% of industry was realized in mining, 18.6% - in processing, 4.8% - in production, distribution and supply of electricity, gas and steam, 0.5% - in water supply, treatment and processing of waste. During ten months of current year oil output was 36.0 million tons, marketable natural gas output – 14.4 milliard cubic meter, growth was mainly gained in the production of non-oil products –food, beverage, weaving, clothes, paper and cardboard, polygraphy, rubber and plastic manufactured products, leather and leather products, shoes, construction materials, metallurgy, ready metal manufactured products, furniture, electronic equipments, furniture, electricity.

Oil Output Dramatically Decreased

In 10 months of this year oil production in Azerbaijan made 36,0 million tonnes. The statement came from sources in the State Oil Company of Azerbaijan. Compared to the same period of the last year, oil production has dropped by 3,0 million tonnes. Meanwhile, Azerbaijan produced 14.4bn cubic meters of commercial gas in January-October 2012. Compared to the same period of the last year, gas extraction has increased by 6.8%. In 2011 Azerbaijan produced 25.7bn cubic meters of gas. By the state forecasts, the country plans to produce 28.28bn cubic meters of natural gas in 2012.

Foreign Trade Turnover Decreased by11,9 %

According to the State Statistic Committee, turnover of foreign trade was \$ 24.6 billion which was 11,9 % lower than compare with the same period of 2011. Oil and oil products constituted 92,0 % of Azerbaijan's export in the first month of 2012 according to CESD sources. Only 8 % of export was non-oil products. CESD concerned over Azeri export's reliance on oil revenue since oil continued to dominate in Azerbaijan's exports.

The State Committee reported inflation was 0,7 % meanwhile the figure is 4.5 % in independent

calculations

According to the State Committee price and service tariffs of consumer goods increased by 0,7 % in the first nine month of 2012 compared to the same period of 2011. The CESD survey verifies that inflation was 4, 5 % in indicated periods. Price increasing observed mainly in food products particularly meats.

Income of populations increased by 13,7 %

During ten months of 2012 income of population compared to the same period of last year increased by 13.7% and reached to 27.1 milliard manat, its volume on per capita formed on average 2959.4 manat or 295.9 manat in a month. Growth of per capita income exceeded increase of consumer prices by 10.9% and became 12.2%. 63.4 % of income was directed to the final consumption, 8.4 % - to the taxes, social insurance and membership dues, 1.7 % - to the payment of percents on credits, 26.5% - to the growth of deposits and capitals. Income in the population disposal made up 24.8 milliard manat and increased by 14.0% compared to the previous year.

End Footnotes; IMF announces forecast of GDP growth in Azerbaijan in 2013

The International Monetary Fund (IMF) has announced forecast of the economy of Azerbaijan in 2013.

At a press conference held today on the results of the IMF mission in Baku, it was stated that in 2013, Azerbaijan's GDP growth will be 3.8%. "This year, the growth of non-oil sector is expected to reach 10% in 2013 - 8%. Its growth is mainly driven by public expenditure. The non-oil sector in 2013 will be able to more than offset the projected decline in oil production," said the head of the IMF mission to Azerbaijan, Raja Al Marzugi.

The official exchange rate is 0.7854 manat to \$1 on November, 20, 2012

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